RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

July 25, 1990 **LETTER 1048**

THE PICTURE: Let's see --- what's been happening in the world? Last week the Bush people announced that they have raised their "official estimate" of the '91 budget deficit to $168 billion ($231 billion if one includes the S&L bailouts). Budget Director Darman warned that if something isn't done, Gramm-Rudman will slash $100 billion in federal outlays across the board. Gosh, what can the government do? Well, for one thing, they can raise taxes. For another, they can slash outlays. But that won't do the job, not when you're dealing with the real, honest-to-God budget deficit of over $350 billion. Oh, one more thing, they can change Gramm-Rudman. If you can't meet the law, well, change the law. Meanwhile, the Democrats are accusing the Administration of not leveling with the public about the real deficit (is anyone?). And the sick tragi-comedy goes on.

Meanwhile, on the international front, Germany's Chancellor Kohl has really pulled it off. Gorbachev has agreed to a complete unification of the two Germany's, with the unified Germany also joining NATO. The joint announcement was made at a spa at the foothills of the Caucasus Mountains by both Kohl and Gorby. Showing the loss of power and prestige being suffered by the US, Bush wasn't even invited to the meeting, and the announcement came as a total shock to Secretary of State Baker. Said Rep. Lee Hamilton (major Democratic spokesman on world affairs), "This makes it clearer than ever that the Germans are leading Western policy towards the Soviets . . .We have become a non-power. The constraints are largely economic. We haven't solved our fiscal problems, we need to borrow money, and you can't say to your creditors, 'This is what you're going to do.'" The next day, Bush found it necessary to claim that he too was in on the historic agreement.

But how did Kohl do it? The answer: you can bet that Germany is going to be THE major factor in the Soviet sphere. Kohl is now negotiating a treaty covering all aspects of Soviet-German relations -- political, economic, scientific, military. Gorby is depending on Germany to revive the Russian corpse. And Germany's power increases -- dramatically.

The US has become increasingly dependent on foreign financing for its liquidity (i.e., foreigners buying our debt or making loans to, or buying up, US companies). But there's a problem as far as the federal deficits are concerned. The dollar is weak, and the only thing that would really strengthen the dollar is higher US interest rates (as per the UK and Canada). Furthermore, German bonds are now yielding about the same as US Treasury bonds -- on top of that, they are probably a good deal safer (Germany has an intense fear of inflation and a very positive trade balance). And with rising interest rates in Japan, Japanese bonds are also offering increased competition to T-bonds.

Fed Chairman Greenspan has been under intense pressure from Mr. Bush and from Congress to lower interest rates. Greenspan has resisted (you know, the Fed is immune to political pressure). But on July 13, Mr. Greenspan used an excuse about a possible credit crunch to intimate that if the crunch becomes too unbearable, he would lower rates (Fed fund rates have since dropped to 8%).

The Fed's promise fueled a short-lived buying panic in the stock market, while simultaneously the Dollar Index dropped to a new low for the year, the Utility Average sank, and gold popped to just over the 360 level.

July 13 DJIA 2980.20; PTI 3298; A-D Ratio -9.65
July 20 DJIA 2961.14; PTI 3285; A-D Ratio -10.22
Dow Yield: 3.64%; Dow P/E: 14.2; DowPow: 402
Dow Book Value: 1075; Dow 200-day MA: 2732
Percentage of Undervalued Blue-chips: 20%
PTI 89-day Moving Average: 3262

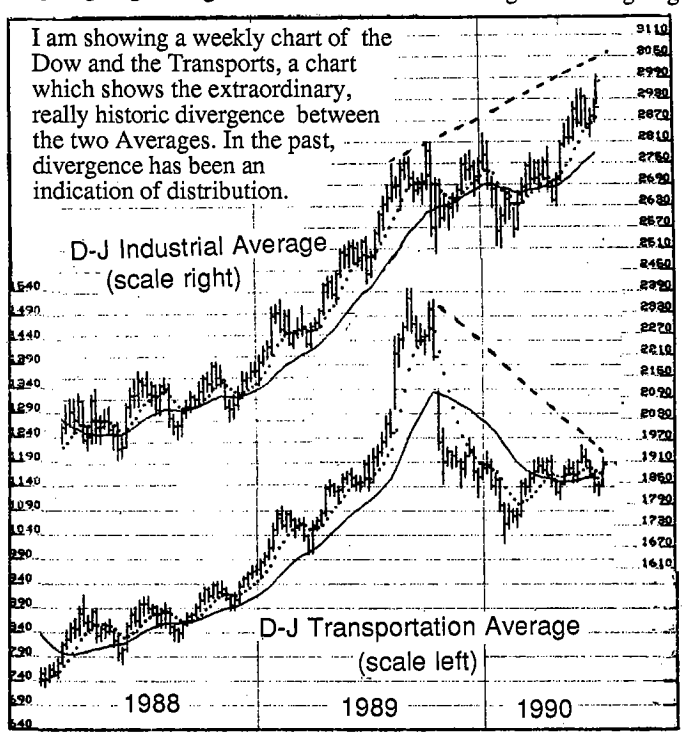
The Greenspan revelation was hardly that momentous, but Wall Street jumped on it as if it was the answer to all of the nation's problems. But I'll let you in on a secret -- the world is global now and the US can no longer "just lower interest rates." If we do a solo "lowering act," the dollar will fall out of bed (which, by the way, it has been doing). If dollar weakness persists, foreigners will look at our Treasury debt and say, "We don't need any more junk bonds." And they'll sell our debt rather than buy it.

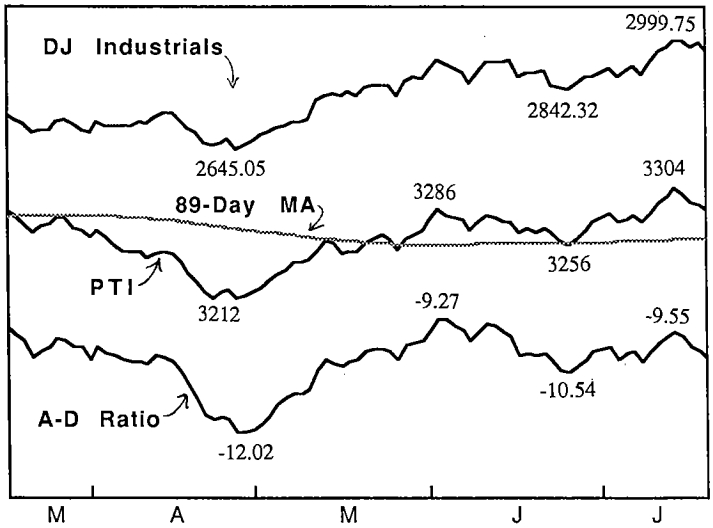
THE MARKET: I've stated repeatedly that the Dow has been the strength of this market. You can have a strong Dow and a weak general market (we've had that for months), but you're not going to get real, bona fide bear market action unless the Dow is ready to decline along with the rest of the market.

We've had a strong Dow, a Dow that has recently rallied to new record highs (although actually, the Dow is currently only 10% above its high of August, 1987). It's a Dow that up to now has not been willing to give way on the downside along with the Transports or the Utilities or the breadth (although that may be changing).

That leaves us with a divergent market, a technical puzzle, and no amount of figuring, chin-scratching, theorizing or anything else is going to solve the situation for us. What can we do? We simply wait for clarification -- and clarification will only come from the market itself.

Count on it -- sooner or later all the various segments of the market are going to get "in gear." Either the breadth will get tired of going


I am showing a weekly chart of the Dow and the Transports, a chart which shows the extraordinary, really historic divergence between the two Averages. In the past, divergence has been an indication of distribution.
D-J Industrial Average
(scale right)
D-J Transportation Average
(scale left)
1988
1989
1990



down or the Dow will get tired of going up. If the lessons of history are still valid, it will be the Dow that throws in the sponge -- unless we are about to witness one of those rare exceptions to the rule.

Here's an interesting and telling comparison. Between December 29, 1989, and July 5, 1990, the Dow rose 4.6%. During the same period the much broader but high-capitalization oriented S&P 500 rose only .6%. And note this -- during the same period the very broad but unweighted Value Line Composite lost 5.1%. No, it's not an easy market, but as I've said so many times before, they don't run the stock market for Richard Russell's benefit.

Question: C'mon, Russell, could this really be a bear market as you claim? It appears to me that a lot of stocks have been going up and some big money has been made.

Answer: Obviously, the Russell interpretation of Dow's Theory could be wrong, but so far I don't see anything to make me think I have goofed. The Dow has been going to new highs, and this is widely and breathlessly advertised in the daily newspapers and on radio and TV. But the Transportation Average is still roughly 300 points below its 1989 high, breadth is lagging badly and daily new highs are unimpressive. And the very important NYSE Financial Index is far from its 1989 peak. On July 20, the Utility Average broke to a new low for the year -- a big point for the bear.

I have no axe to grind. I have no vested interest in being either bullish or bearish. I have all the money I need, and business here is good. Honest, if I thought this was a primary bull market (instead of a bear market) I would say so. Furthermore, I would have no problem with admitting I am or was wrong (I've admitted being wrong many times in the past). So I'll stick with my Dow Theory interpretation which states that a bear signal was rendered by the Averages last January 25 -- and so far nothing has occurred to make me think that the signal or my interpretation of that signal was incorrect.

Technically, as far as I am concerned, the Averages signaled a bear market last January. Following which they moved into "no man's land," where they have remained ever since. The bulls tell us that this market has absorbed an awful lot of bad news over the past year. But as I see it, this market has also absorbed an awful lot of stock -- and I've yet to see the Averages (all of them, of course) at new highs -- which to me is the crux of the case.

Comment: A lot is being written about the current "bullish" put/call ratio and the high short interest. Both of these would constitute a big plus if the primary trend of the market was up. But when the primary trend is down, the bullish significance of such items evaporates. In a bear market the bears are correct. Thus, bearish sentiment (in a bear market) is correct sentiment, and a huge short interest should simply be considered as speculators who are correctly aligned with the prevailing trend. This concept always comes as a shock to analysts who have never lived through a major bear market (and remember, most of today's analysts weren't around during 1973-74).

INVESTMENT POSITION: As I see it, the great values today are not in Dow stocks that are yielding 3%. The bargain area today (and I've been saying this for a while) is in the currencies and gold (below 400, I feel gold is "cheap"). US T-bills provide yields of just under 8%, and some foreign paper gives you a lot more. Of course, when you buy anything denominated in a foreign currency, you are dealing with currency fluctuations against the dollar. But personally, I think that's a good speculation.

Almost all the US banks are "out to lunch" in this area, but you can invest in currencies through the Swiss banks (they have branches in the big US cities). Merrill Lynch has now started dealing in foreign CDs. Last week, they quoted me a 14.5% yield on selected British CDs, and nearly as much on Canadian CDs. Dollar denominated securities are going to meet increasing competition -- the new avenues for US investors are beginning to open up.

It should come as no shock to readers to see that the bear stays in the box.

THOUGHTS, 1990: Every once in a while I find it worthwhile to hold still and write down my thoughts about the market and the economy. This is one of those times, so here goes:

(1) As readers must know by now, I feel strongly about the US debt situation. The thing is, I honestly don't see how we're ever going to "solve it". Worse, I don't see our government even dealing with the deficits honestly and rationally. I have five kids, and I have put some money away for each of them. And I wonder, as the federal debt pushes relentlessly toward the $4 trillion mark, whether I'm just spinning my wheels. I wonder whether what I'm putting away for the kids will be worth anything ten or twenty years from now. I worry too much. Maybe I should just do the best I can and let my kids do their own worrying when the time comes.

(2) The other day I asked my wife, Faye, whether she thought I was basically an optimist or a pessimist. She said she thought I was an optimist. After all, I've lived through combat in WWII, two divorces, five kids (one autistic), 45 years of motorcycling (I still love 'em), a heart attack, a quintuple bypass, two muggings (one on each coast), 32 years writing about the markets -- and well, I could go on and on.

And I'm still happy and smiling and feeling good. I really think I am an optimist. Furthermore, I see an awful lot of things wrong with this world, and I think somehow that the human race will continue. But we humans are sure not efficient or even very intelligent. As Einstein remarked when asked about the concept of infinity, "There are only two things that are infinite -- space and human stupidity."

(3) The market generally discounts from a few months to as much as a year ahead. Up to now the market seems to like what it sees (although no one can be absolutely certain about what Wall Street is looking at). The market is difficult because one can never be certain of how far out it is discounting. Furthermore, as Robert Rhea often noted, "The market can change its mind overnight."

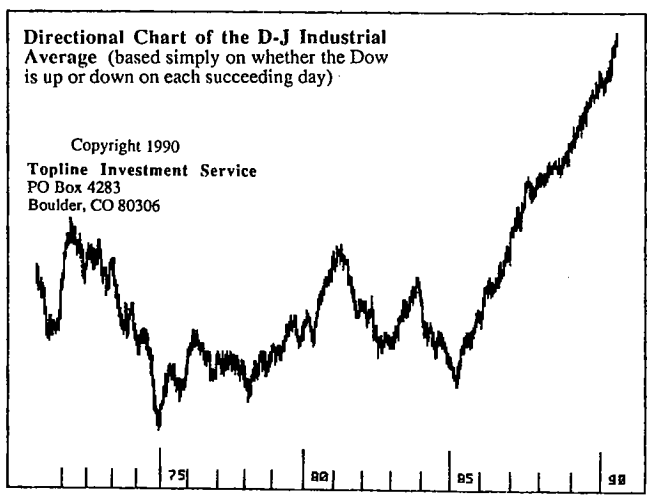
Let's study a fascinating and historic example. On July 8, 1932, the Dow had smashed to a record low of 41. Things were very bad, and I mean VERY bad. But just a few weeks later stocks were

booming, as a new bull market was ushered in. Most people at the time were still traumatized by the 1929 market crash and the horrendous depression, however, and they weren't ready to turn bullish in a hurry. In fact, it wasn't until 1954 (25 years after the '29 crash) that the Dow was able to better its old 1929 high. I sometimes think that today is 1932 in reverse. People today are stubbornly optimistic, despite the onset of the greatest debt mountain in history and despite extended and persistent divergences on the part of the some of the Averages and indices.

Today, people have great faith in the government's ability to handle any crisis. People are generally happy about the collapse of Communism and the end of the cold war, and they are bullish about the new Europe of 1992. They like their President, and even though they hate their Congressmen they keep voting them back in office again -- and again. With all the economic disasters of 1989-90 (from the S&Ls to the LBOs to the banks to Milken and Trump), I think people really feel OK about the way things are going. Furthermore, the *WSJ* tells us that 1990 could be a record year for mutual fund buying (to the great consternation of your local stock broker).

The stock market (or at least the Dow) seems to be looking past the current troubles. Yet our debts keep growing. So who's right, the pessimists or the optimists? That's the eternal market question, and it's the question that makes this business so interesting.

(4) My computer whiz friend, John Carder, just sent me this chart of my Dow Directional Indicator (DDI). The chart astounded me. This is a "screen dump" showing (in very concentrated form) over 20 years of Dow directional action (see last few Letters for description of the DDI). As you can see, the DDI has been climbing (literally uncorrected) for the last five years. Sooner or later, this extraordinary rising trend will reverse. When it does, "Hold your hat." We're going to see one whopper of a bear market.


Directional Chart of the D-J Industrial Average (based simply on whether the Dow is up or down on each succeeding day)
Copyright 1990
Topline Investment Service
PO Box 4283
Boulder, CO 80306
75
80
85
90

(5) As subscribers know, the concepts (theories) of compounding and gold both fascinate me. I guess these concepts fascinate me because they are immutable, unchangeable (maybe gold's not immutable, but it's got 5,000 years of history behind it, so I treat it as immutable).

No matter what our politicians or anyone else would like, gold continues to be real money. Washington may hate gold, but just let gold rally 15 or 20 dollars, and they become alarmed. When gold goes up, it means that it requires more dollars to buy it, or translated, it means that the dollar's value is going down. That's why Washington loves falling gold and hates rising gold. Nothing frightens Washington as much as a bull market in gold. But I'm thinking that one is coming.

Of course, the other thing that scares the hell out of Washington is compounding. Compounding, as in compounding debt and the interest on that debt. Washington would like to legislate gold and compounding out of existence, but they can't.

(6) Consider this. The test of a species' survival-ability is in its numbers. Human beings all belong to a single species (even though skin colors may differ), and this one species -- Homo sapiens, has survived maybe a few hundred thousand years. But look at the insects. Gad, there are 70,000 species of just beetles alone, and every one of those 70,000 species is alive and well. And there are hundreds and thousands of other insect species, all making it on this earth. Talk about efficiency and survival-ability; the insects will ultimately inherit the earth. Long after man fades from the picture, the insects will be crawling or burroughing or flying over the face of the earth. Logic is all on the side of the insects (but I'm still an optimist on humanity, at least for the next few hundred years or so).

(7) Any time you find yourself caught up in the emotions of the market, such as buying simply because the market is going up or selling just because the market is dropping, watch out. The stock market loves to feed on people's emotions, and action taken on the basis of greed or fear is usually costly action. But often it takes a few month's time to find out what it costs.

(8) My Primary Trend Index (PTI) finally produced a bit of a whipsaw when it turned bearish on January 25 and then turned bullish again three months later on May 23. But I don't begrudge the PTI its earlier sell signal, that's the cost of insurance. If the market had collapsed after the January 25 sell signal, then the PTI would have been the hero of the day. The market didn't collapse, and then came the bullish signal of May 23. Do I fault the PTI? No, I feel it's just doing its job. It pointed to potential danger, and then turned around and told us that the danger had passed, at least temporarily.

(9) In my considered opinion, the US has passed its peak of power and we are now looking at the rise of the new Europe (and maybe the new Asia). Here are a few items I look at. I look at the US' compounding debt and rising deficits. I look at the dollar which has been sliding in purchasing value for years. I look at the rise of the "working poor" in America (currently, there are the 32 million Americans who fall below the poverty level, even though they are working). I look at the US hourly wage scale (adjusted to 1977 dollars), which has fallen from a high of $5.83 in 1973 to a new low in 1989 of $4.80. I look at the extraordinary number of lost men and women and vagrants who are dotting our streets today. I look at the manufacturing jobs which the US has lost to foreigners and the industries which we have lost to foreigners.

(10) Years ago I stated that as the US debt rose, I was absolutely certain of one thing -- that the standard of living in the US would decline. The US is now borrowing a third of a trillion dollars a year in an attempt to maintain its standard of living. That's a dead end. And with all the borrowing, our national standard of living is still declining. You don't believe it? Walk from one end to the other of any city in the nation and note what you see. Or ask anyone over the age of 45 whether he sees any change in his community.

As I look back over the years, I believe that the American standard of living has improved in only two areas -- communications of all kinds, and medicine. As for the other areas, I think living is more difficult and more frustrating now than it was twenty or forty years ago.

(11) This is from the July 15 *New York Times* -- front page "Business Section". It's worth pondering: "For much of the '80s, credit was easy, even when it was expensive. That enabled entrepreneurs to borrow billions for projects and acquisitions, some of which turned out well, and some which didn't. Now credit may get cheaper, but for many it will still be tight, recalling the old line about bankers lending only to those who prove they don't need the money. This is the formula for the big to get bigger, not as in the 1980s, for the little guy -- armed with optimism and Mike Milken's phone number -- to buy the big ones."

(12) And from the same issue of the *Times* -- front page, "News in Review": "There is no doubt in anyone's mind in London, Paris or Bonn that the Western leader who dominates in the international agenda these days is not Prime Minister Margaret Thatcher of

Britain or President George Bush of the US, but Chancellor Helmut Kohl of West Germany. Part of the reason is that German economic and political strength is beginning to overshadow Europe the way Soviet military strength did for 45 years."

Russell comment: I've always said that with nations, "By their currencies ye shall know them." The mark is becoming almost a reserve currency, and the dollar is declining in value and respect. Fifteen years ago 69% of the world's central bank reserves were in dollars. That percentage has now dropped to 61%. When American tourists go to Europe, they can't believe the high prices. If the dollar was strong, European travel and shopping would be a bargain. From an American tourist's standpoint, there's nothing bargain-priced about Europe today (even formerly super-bargain Spain is now high-priced).

(13) I feel that the US is now balanced between two alternatives. One alternative would be a government move to jazz up the economy via lower interest rates in an attempt to "get things going again." This approach would immediately bring on trouble, however, since lower rates have an immediate negative affect on the dollar and they also spur inflation.

The other alternative is recession, which would bring on its own set of troubles, possibly the worst of which would be collapsing tax receipts to the government with a consequent explosion in the federal deficit to the $400 to $500 billion level (to say nothing of the problem of rising unemployment).

So the Fed continues its tightrope act, tiptoeing between the two alternatives. And all the while the Fed is worrying about inflation and about the dollar and about the economy (the Fed doesn't want the economy to heat up or to contract). The question is -- can the Fed stay on the tightrope, and if so, how long can it stay on it? That's the billion dollar question, and it's the one that I believe the Transportation and Utility Averages are dealing with, even as the Dow flirts with new highs.

NOTES & QUOTES: You can't imagine the amount of vital information I receive from subscribers across the US and around the globe. All of this info is a tremendous help to me as I attempt to unravel and comprehend the events of our times. I'm a voracious reader, and I do read everything sent here -- and I do appreciate subscribers sending me notes, clippings, articles, etc. But I'm embarrassed to say that I can't thank each subscriber individually for favors received (it would take up too much time and energy). However, I want to thank you here. You give me 8,000 extra sets of eyes. And believe me, that's an advantage.

* *

US tax revenues for June dropped 3% from June 1989. That was the first year-to-year drop in six years. Meanwhile, federal spending for the first six months of 1990 rose 15.9% from the same period in '89. The increases came basically from boosts in unemployment benefits, medicare and civil-service salaries. As I've said before and I'll repeat here -- the federal budget is totally out of control -- and getting worse.

* *

The Proof: The story is slowly beginning to seep out -- Congress will go through the embarrassment of raising the debt limit up $3.5-$3.8 trillion in the next few months. And they're beginning to talk about the $4 trillion federal debt which will be reality by 1993.

U.S. debt to hit $4 trillion by 1993, panel told

Knight-Ridder News Service

WASHINGTON — The federal government will be over $4 trillion in debt by 1993, the Bush administration told astonished members of the House Ways and Means Committee yesterday.

* *

Last week Congress narrowly defeated a proposal for a constitutional amendment for a balanced federal budget. Bush and Reagan both endorsed the amendment, but ironically neither president has ever (and I mean never) come within $100 billion of presenting a balanced budget to Congress.

* *

Astounding statistics of the week: In 1989, out of every 100 persons added to the world's population, 93 were added in a developing country. In contrast, in 1970, 87 out of every 100 were from a developing country. The average American woman will produce a total of 14 children, grandchildren and great-grandchildren. The average African woman will produce 258. I don't know exactly what this means, but I know it ain't good. . . More than half of Britain's 16-year-olds drop out of school completely, compared with the US drop-out rate of 6%. . . In the US, half of all adults 18 to 24 are living with their parents; 55% of all black children live in one-parent homes, one-third of all hispanic children live the same way. . .50 million Americans still smoke, and 9% of all doctors smoke. . . Each day 50,000 babies are born in China and 19,000 people die.

* *

In the 1980's the outside world put $100 billion into black Africa, and the great bulk of that money went down the drain -- into corruption. The world has now all but abandoned black Africa. The US can't afford it, Europe has it's own problems and Japan is looking toward China. (Much of the African info comes from the brilliant *Donald Morris Newsletter,* written by my old classmate Don Morris. I highly recommend this report, at PO Box 19909, Houston, TX 77042.)

* *

Inflation: I've always mistrusted the government's inflation figures. But here's some real ones, put out by the non-profit Food Marketing Institute, and they hit where it hurts. Last year, supermarket prices rose an average 6.5%, the biggest rise since 1981. Food prices will rise another 4% or more this year. That's better than 10% in two years.

* *

The British *Economist* muses, "Japanese smoke, drink to excess, take little exercise and spend less of their GNP on health care than most other rich countries, and yet live longer than anybody else -- men to a ripe old age of 74.4 and women to 80.7. How come? They eat the right things." The Japanese national diet is buckwheat noodles, fish, rice, vegetables. But the problem is that they are now eating more like Westerners, and their health is consequently declining.

* *

In his July 9 *Investor's Daily* column, Ed Hart (one of the few writers who's honestly addressing the debt problem) writes that a White House memo notes: (1) the federal debt grew from 165% of GNP in 1980, to 230% today, and it now requires $1 trillion in interest payments, (2) two-thirds of this debt will be rolled over in the next five years, (3) 150 companies with junk bond issues are on the verge of bankruptcy, (4) personal bankruptcies are running at a rate of 600,000 per year, with a backlog of 1.2 million cases to be heard in the courts, (5) 80% of the states, by some measures, are in, or on the verge of, recession, thanks to rising unemployment in autos, construction, retailing, financial services, agriculture, energy and defense, (6) 250 banks are in such weakened financial condition that if they were S&Ls they would be shut down.

* *

Thinking of sending Junior to a top college? Note this: Stanford will be raising the rates 5% next year, meaning tuition, room and board will be $20,210 for one year. Yale will rise 7.8% to $20,820 and Harvard will pop 6.5% to $20,655. Amazing how they're all within a few hundred dollars of each other.

* *

Is America the prisoner of Japan? Well, didn't Bush offer to raise taxes a day after he returned from the Tokyo meeting? If Japan cut down or halted its buying of US debt, interest rates here would go through the roof, in which case the US would sink into recession -- and Mr. Bush's chances of winning in 1992 would drop to zero or below. So Bush must have thought it over and decided that if he broke his "no new taxes" promise he might still have a good chance of winning in '92, but if he refused to raise taxes and the Japanese

cut back their purchases of Treasury debt he would have no chance of winning in '92. The result is the famous Bush flip-flop.

This cartoon from the July 9 *WSJ* maybe says it all:

George-tell me that our three-hundred-year history of shared language, customs and culture counts for SOMETHING in the competitive world of global trading...

* *

My friend, Jim Blanchard, has written Confessions of a Gold Bug. It's a fascinating biographical history of the gold movement, and it's also the story of one man's triumph over adversity. Perhaps, more than any man alive, Jim has been responsible for reversing the US' ridiculous ban on American's owning gold. I was there at Jim's first New Orleans giant seminar, and I've spoken at all but one of the seminars ever since. You can buy the book at 2400 Jefferson H'way, Jefferson, LA 70121; cost is $19.95 plus $2.95 for postage and handling.

* *

Question: How can the US sell T-bills at an effective yield of 8% when short-term government money is over 13% in Canada, over 12% in Britain, 10% in France, 8.9% in Germany and 14% in Italy? Answer: Part of it is the feeling that the US has a stable government, part is the feeling that inflation is under control in the US, part is the hope that the Fed will be leaning toward lower rates, and part is American's inbred suspicion of foreign debt and foreign currencies. All this will change in time, and my own feeling is that US rates are too low, and that the pressure will be to move them up in line with international rates.

* *

The other day a subscriber asked me what I thought was the biggest bargain for your money today. I was going to say food in California, but I said newspapers. Admittedly, I'm a newspaper-aholic, but I do think that newspapers, even at today's 25 cents and 50 cents price, are a bargain. Do you realize how much work, how much talent, how much sweat and how much thought goes into each issue of your daily paper? Furthermore, I can think of no profession more honorable than the one that brings the news, the ideas, and (hopefully) the truth to its readers -- and on a daily basis!

* *

I always applaud a new newspaper. So here's a hand-clap for the new *National*, the US' only all-sport daily newspaper (ironically owned by a wealthy Mexican). I bought the first issue of the *National*, and I wasn't terribly impressed. But the paper has improved greatly, and I like it, I like the writing, and I like the clean, readable appearance. The *National's* biggest competition has to be the fine sports section of *USA Today*. Nevertheless, I think there's room for the *National* and I hope it's here to stay.

* *

Speaking of newspapers, why does a great city like San Francisco put up with such "nothing" newspapers? Oh well, they can always read the national edition of *The New York Times*.

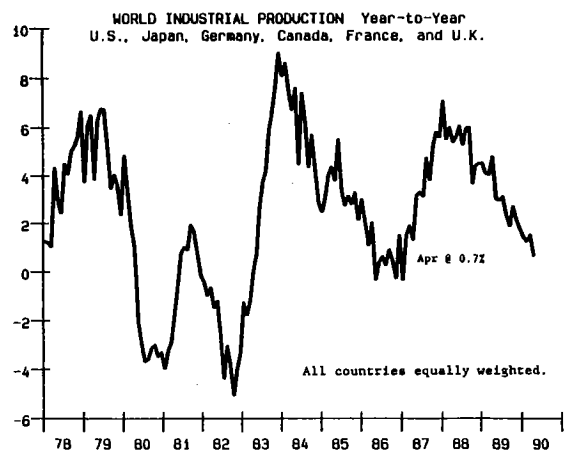
* *

What do you do to sustain profits if your sales volume is down? Simple, just raise your prices. With volume down, US car makers will be raising prices roughly 4% in 1991. And for the first time in memory, the average price of a new car is more than half of an US family's median annual income (the average new car price in 1990 is $16,300, and the median income for an US family is $32,000). Newspapers are doing the same thing. With circulation slipping at the *WSJ* and *Barron's*, they raised their ad prices. But that's normal these days. Isn't the market doing the same thing? With corporate earnings off on a year-to-year basis, the Dow keeps pushing up toward record highs (of course, the breadth, indicative of the average stock, is lagging way behind).

* *

How do you describe the world economic situation today? In a word, "weird". For instance, here's the story from the July 16 *US News and World Report*. They're forecasting a global boom. But look here -- Ed Hyman of *C.J. Lawrence* shows us in chart form what's actually happening. Ed writes, "World production is slowing. World industrial production is almost as slow as it was in 1986. Based on flat to inverted yield curves around the world, production is likely to remain sluggish."

SPECIAL REPORT
THE COMING GLOBAL BOOM
The cold war is over, Japan is forging vast new markets and Europe is awash in Europhoria. The expansion of the 1980s will surge forward into the 1990s. Yet the U.S. may well miss the boat



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What is probably the hottest item around is one you can't buy. It's a franchise in the new World League of American Football (WLAF). All but two of the current NFL owners bought into the new springtime league, paying ten to 14 million dollars each. They'll start in spring '91 with 12 teams with four foreign teams (Barcelona, Frankfurt, London, Milan) and eight US teams. Salaries for players will be under $40,000, and the NFL will own 51% of each team. Owners can be corporations, groups or individuals. The WLAF thinks owners can make a 25% profit by the second year based on income from TV and radio, admissions, plus a 50% share of the league's profits. The WLAF has already signed TV contracts with Cap Cities/ABC and USA Network for $25 million a year. And maybe best of all, the new league will be headed by Tex Schramm, a fabled salesman and football man. Owners are now buying up minority shares, and the word is that no one is looking to sell.

FOREIGN BANK DEPOSITS -- Coming to a bank near you! Americans have long been used to thinking of all values and prices in terms of the dollar. Not so, the rest of the world. But reliance on imports and the need for foreign financing (even financing of our federal debt) is changing all that. Very few Americans own any foreign currency deposits. In fact, US law has not allowed domestic banks to offer US citizens accounts denominated in foreign currencies.

On January 1, 1990, the Fed finally reversed itself, and you and I are now allowed to own a foreign currency account in a domestic bank. But there's a catch. US banks are still living in the past.

Almost no US banks offer their customers foreign exchange accounts (although you can open such accounts at most of the US-based branches of foreign banks such as the Swiss banks).

One interesting area is that of foreign government debt, specifically foreign treasury bills. Britain, Australia and Canada at present have very high interest rates, far above US rates.

Of course, the only real risk in buying the debt of a major developed nation is the risk of currency fluctuation. Therefore, if you do buy say British or Canadian T-bills, it is important to follow the respective nation's currency. If the currency tops out or goes into decline, you'll want to get rid of your bills. Then again, if the currency rises (as it has recently in both Britain and Canada) you'll have not only a good return but an added profit on currency appreciation.

Interest rates on bills differ widely. Currently, Britain and Canada offer high double digit rates on their bills, but both nations have high inflation and Canada's political situation has been a problem.

One way of buying a foreign currency is via foreign CDs. These are usually in amounts of $50,000, but some Swiss banks sell CDs in amounts as low as $10,000. Most major cities now have branches of leading Swiss banks. (Note: Merrill Lynch has now started trading in foreign CDs.)

Fifteen years ago 69% of all reserves in foreign central banks were in dollars. Today the figure is down to 61%. The rising currencies are the mark and the yen. Without question Germany has become the powerhouse of Europe. The very powerful Bundesbank is almost immune to political pressure and it is very conservative (it shares the German dread of inflation). At present, the trade weighted dollar is flirting with an 11-year low. I'm not optimistic that the low is going to hold (you can follow the daily path of the trade weighted dollar on the front page of the third section of the *WSJ)* .

As the dollar slowly sinks in value (and the rising US federal deficits almost guarantee that it will sink), I feel the Deutsche mark will loom larger and larger as an alternative to the dollar. I also feel that **the coming "hot item" in investing will be the currencies** (where you will receive the appropriate foreign rates, which in many cases are sky-high).

Bank of America is now arranging for deposits in foreign currencies and I understand Citibank and Wachovia are doing the same. Subscribers who have info on US bank deposits in foreign currencies, please send me facts (I'll relay them). Some of the US brokerage houses have started up currency funds, but their load and overhead charges are outrageous. P.S. I think the trend of US banks allowing foreign currency holdings will be bearish for the dollar (it gives us a clear and convenient way out of dollars and into strong currencies).

GOLD: Well, last week I got the word from my old friend Bob Powers (*Robert S. Powers, Inc.*) here in La Jolla. Robert does a tremendous amount of econometric and computer work with stocks, gold and the economy, and his gold barometer has just (finally) turned bullish (his gold barometer is based on many items including currencies, interest rates, inflation rate, economic conditions, etc.).

The chart below shows the Powers gold barometer, an indicator which, by the way, possesses an excellent record. The dotted line on the chart always dominates, but this is how Powers reads the barometer. When BOTH lines are above the zero level the background for gold is bullish. The opposite is true when BOTH lines are below zero. Once the two indicators give their signal, such signals usually last for quite a while (i.e., many months to a few years or more).

Over the past few weeks Powers received his gold bull signal. That, then, is the gold news for this Letter. I continue to recommend my much-repeated policy of a fixed-dollar amount of

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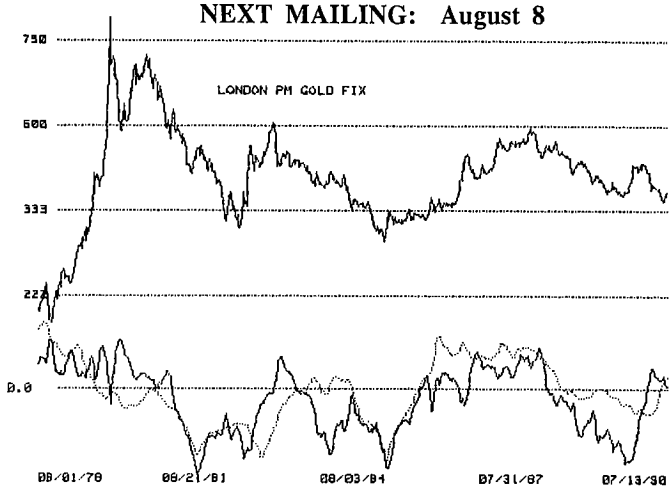

gold coins each month (bullion coins such as Krugerrands, Eagles Maple Leafs, Coronas, etc). I also like the two stocks discussed below.

After much analysis, Powers has picked two gold stocks. One is **American Barrick,** a stock selling at one of the lowest ratio of price to reserves of any North American gold (even though Barrick is a Canadian company, it's very large and growing reserves are in the Carline Trend area of Nevada).

The other stock which Powers feels is outstanding is **Anglo American South African,** a holding company with large interests including 49% of Anglo American Gold, 32% of De Beers Consolidated, and 39% of Minerals and Resources. ANGLY's assets are valued at $53 a share, and its assets have been growing at a rate of 10% a year (ADRs are traded OTC). **Late gold note:** gold is up $7.50 on July 16. I'd say that gold is thoroughly sold out. I say that we've seen the lows for gold and the bull trend is now underway.

LATE NOTES: On July 16, the Dow closed at 2999.75, an intriguing 0.25 below the bull's much-wished for "target" of 3000. But the Dow ended the week with a loss of 19 points, while the Transports lost 28 points and the Utility Average closed at 202.15, a new low for the year (I warned about the ominous Utility action in the last two Letters). For the week, there were 738 advances on the NYSE and 1200 declines and it is notable that the weekly A-D ratio (as well as the daily A-D ratio) refused to confirm new highs in the Dow.

On Monday (July 23 -- mmmm, just one day after my 66th birthday) the Dow, at 11AM, was down 63 points -- after being down 106 points earlier. Is the fun and games with the Dow over? Is the great Dow "cover up" coming to an end? Is the hibernating bear about to come out of his lair? We should know soon enough.

A few notes from the Monday press. Washington is so desperate for new money that it is talking about limiting the deductibility of mortgage interest (and in so doing incurring the anger of the party's BIGGEST contributors and lobbies). . . A discounting war is on in fast foods as McDonald s average franchise store gross dropped $10,000 during the latest quarter . . . The Higher Education Assistance Foundation (which guarantees loans to the student aid program) is near bankruptcy (it guarantees $9.6 billion in loans which the banks made). . . The fun parks in Southern California are experiencing lower sales as amusement parks from Disneyland to Sea World raise their prices (a family of four will spend $120 and up for a day in Disneyland -- hey, it's cheaper to take the kids to the beach).

SALES PITCH: We don't have a lot of extras to hawk, but here's what we offer: FAX service for $150, microfiche of every Dow Theory Letter ever written going back to Letter #1 in 1958 -- at a price of $795. We also have two albums of daily charts, one of all the D-J Averages going back to 1895 (one year per page) at $135 and a second album of the daily Dow and the A-D ratio going back to 1931 at $95. Of course, I think all of these items are invaluable, but it's your money, so you decide.